



# RENTAL ASSISTANCE DEMONSTRATION

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U.S. Department of Housing and Urban Development

Secretary Julián Castro

*"The affordable housing crisis is growing. RAD is part of the solution."*

Secretary Julián Castro



## An Interview with Tom Davis, the New Director of the Office of Recapitalization

On June 6, Tom took over responsibilities for the Office of Recapitalization, which administers the Rental Assistance Demonstration (RAD) program. We thought it would be helpful to get Tom's views on the following:

**Q: As part of your prior work, you assisted many PHAs with their conversions to RAD. Do things look different now that you're a HUD employee?**

It would be great if everyone had a chance to swap seats and see life from the other side! I hope I can bridge some of that understanding. I've had the chance to work with the team up close for a few weeks now, and am very impressed by their knowledge and dedication and willingness to improve the program. They're doing a great job working through difficult issues, but I certainly see areas where I think we can improve the process and make good transactions easier to close.

**Q: You came to HUD the week that the Revised RAD Notice was published. How do you see this Notice changing the work in the Office of Recap? How will the Revised RAD Notice impact PHAs wishing to convert?**

To be clear, that was all coincidental! I can't take any credit for getting it published. That said, I'm thrilled that the Notice has been finalized and that kick-off calls are now moving forward. The Notice clears up policy and procedural issues that delayed some transactions. The Notice should make it easier for PHAs to plan their transactions and, we hope, move more smoothly to closing. I'm also pleased that the Notice includes some new provisions designed to allow PHAs to leverage more funds, such as the energy improvement incentive for PBRA conversions with tenant-paid utilities.

**Q: The Notice has some significant changes for Second Component Transactions (Mod Rehab, Rent Supp, and RAP). What do you see occurring with those properties?**

For these "legacy" programs, the Notice both expands program eligibility (to include Mod Rehab SROs) and provides more options (including the ability to convert to PBRA for Rent Supp/RAP properties). I hope this encourages even more owners to preserve these properties as long-term affordable housing. Not surprisingly, in the last two weeks we've seen a jump in participation as folks now know their new options. I hope the pace continues.

**Q: Over the next several years, where do you see RAD, and the Office of Recapitalization, going?**

In the short term, we need to keep demonstrating that RAD, as a preservation tool, works—successfully converting the 185,000 public housing units currently authorized, leveraging significant capital investment in the portfolio, and preserving as many of the roughly 45,000 units remaining in the Mod Rehab and Rent Supp/RAP programs as possible. Long term, I hope we make the case for future program expansions to preserve at-risk properties and to instigate more reinvestment. Ultimately, our work is about the residents' quality of life—both during and after a RAD transaction. RAD is a great tool to preserve and sometimes create quality, affordable housing options.

The Rental Assistance Demonstration (RAD) allows public housing agencies (PHAs) and owners of HUD-assisted properties to convert units to project-based Section 8 programs, providing an opportunity to invest billions into properties at risk of being lost from the nation's affordable housing inventory. RAD 1st component transactions cover Public Housing units as well as Section 8 Moderate Rehabilitation projects. Units that fall under this component are subject to a unit cap and are limited to current funding. RAD 2nd component transactions cover Rent Supplement (Rent Supp), Rental Assistance Payments (RAP), and Section 8 Moderate Rehabilitation projects. Unlike 1st component transactions, 2nd component transactions are not subject to the cap, but are constrained by the availability of tenant protection vouchers (TPVs). Both components allow housing programs to convert their assistance to long-term, project-based Section 8 contracts, providing a more stable source of funding.

The 1.2 million units in the Public Housing program have a documented capital needs backlog of nearly \$26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve and improve affordable housing units that could be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As a result of the FY2015 appropriations bill, the Department has the statutory authority to convert up to 185,000 units through RAD's first component, representing a significant increase from the program's initial 60,000 unit cap. The additional authority will widen program participation, enabling more PHAs and HUD-assisted property owners to ensure access to quality, affordable housing for our nation's low-income families.

On July 8<sup>th</sup>, HUD published its new Affirmatively Furthering Fair Housing (AFFH) regulations. RAD transactions are not directly affected, but we encourage you to find out more [here](#).

## June Closings Spotlight

### Magnolia Gardens I and II, Florence Housing Authority, Alabama

Located in Florence, Alabama, Magnolia Gardens I and II offer 214 public housing units in two senior high-rise buildings. The project's conversion is being funded through a combination of an FHA insured 221(d)(4) loan and 9% low-income housing tax credits (LIHTCs), with the PHA maintaining its ownership or control through a partnership interest in the new entity formed for tax credit purposes and through a long-term ground lease. Overall, the hard construction costs will amount to \$9,050,505, or approximately \$42,000 per unit.

The project converted to PBRA, with contract rents of approximately \$603 per unit per month.

"The comprehensive renovation of the apartments are in full swing, which makes the long process all worth it!" said Shaler Roberts, Executive Director. "We were trying to balance the different requirements for RAD, FHA, and tax credits, but we got it worked out. I don't think there was any other way to address all the needs of two 30 year old high-rise buildings without RAD."



### Hampton Homes, Greensboro Housing Authority, North Carolina

Hampton Homes is one of the first public housing conversions utilizing a Section 223(f) FHA loan. The project consists of 288 "general occupancy" units, with RAD contract rents of \$645 per unit monthly. The project converted to PBVs. The conversion is facilitating \$2,868,826 in construction costs but also generated \$4.6million in excess loan proceeds, which the PHA is utilizing to help finance other RAD transactions. The project will be owned by Hampton Homes Greensboro, a non-profit affiliate of the agency.

Hampton Homes is proximal to downtown Greensboro and offers its residents easy access to public transit and the local economy. The Greensboro PHA has "a history of participation in innovative programs such as HOPE VI, Energy Performance Contracting, Capital Fund Financing and Tax Credits," says Tina Akers Brown, CEO of the Greensboro Housing authority.

"We look at RAD as an opportunity to invest in our aging properties by allowing us to make improvements using creative financing such as tax credits, tax-exempt bonds, FHA mortgages and other available funding. We are converting our entire 2,209-unit portfolio to Project-Based Vouchers using various sources of financing. We chose Hampton Homes for our first conversion because most of the improvements needed there are not structural. Using the FHA 223(f) product was a learning experience for us."

"RAD is not only allowing us the opportunity to transform our properties; it is also transforming our organization by helping GHA move towards a private market business model."



## RAD Stats Through 6/29/15

### RADOMETER

*Total construction activity leveraged (closed projects, 1st component)*

**\$989,767,925**



### RAD 1st Component

	Units	Projects
Statutory Cap	185,000	N/A
Active CHAPs	108,005	906
Multiphase/Portfolio Reservations	43,474	271
Closed Conversions	17,936	168
Applications Under Review	13,001	89
<b>Total Reserved Authority</b>	<b>182,416</b>	<b>2,906</b>
Authority Remaining*	2,584	N/A

\* Excludes applications rejected and CHAPs revoked or withdrawn.

### RAD 2nd Component

	Units	Projects
Active Conversions	3,221	25
Closed Conversions	15,295	114

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